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第一拖拉机股份有限公司
FIRST TRACTOR COMPANY LIMITED*

(a joint stock company incorporated in The People's Republic of China with limited liability)

(Stock Code: 0038)

CONTINUING CONNECTED TRANSACTIONS FOR 2022

2022 CONTINUING CONNECTED TRANSACTION AGREEMENTS

On 24 December 2021,

- (a) the Company, on behalf of the Group, as the lessor, and YTO, on behalf of the Enlarged YTO Group, as the lessee, entered into the Land Lease Agreement, pursuant to which the Group agreed to lease the Land to the Enlarged YTO Group;
- (b) the Company, on behalf of the Group, as the lessor, and YTO, on behalf of the Enlarged YTO Group, as the lessee, entered into the Properties Lease Agreement, pursuant to which the Group agreed to lease the Properties to the Enlarged YTO Group;
- (c) YTO, on behalf of YTO Group, as the purchaser, and the Company, on behalf of the Group, as the supplier, entered into the Research and Development Services Agreement, pursuant to which the Group agreed to provide the product research and development, technological and calibration services to YTO Group;
- (d) YTO, on behalf of YTO Group, as the supplier and/or the supplying agent, and the Company, on behalf of the Group, as the purchaser and/or the purchasing agent, entered into the Common Resource Services Agreement, pursuant to which YTO Group agreed to provide the Common Resource Services to the Group;

- (e) Xiyuan Company, as the supplier, and the Company, on behalf of the Group, as the purchaser, entered into the Product Inspection and Testing as well as Technological Services Agreement, pursuant to which, Xiyuan Company agreed to provide the Product Inspection and Testing as well as Technological Services to the Group; and
- (f) Tractor Research Company, as the supplier, and the Company, on behalf of the Group, as the purchaser, entered into the Tractor Research Company Technological Services Agreement, pursuant to which, Tractor Research Company agreed to provide the production technology research and development, consultation and other technological services in respect of tractor and other agricultural machinery and diesel engine and other power machinery products to the Group.

RELATIONSHIP BETWEEN THE PARTIES

As at the date of this announcement, YTO beneficially owns approximately 48.81% equity interest in the Company and is the immediate controlling shareholder of the Company. Xiyuan Company is a direct wholly-owned subsidiary of YTO. Tractor Research Company is an associate of YTO and a connected subsidiary of the Company under the Listing Rules. Accordingly, each of the members of YTO Group, Xiyuan Company and Tractor Research Company is a connected person of the Company and the transactions contemplated under the 2022 Continuing Connected Transaction Agreements constitute continuing connected transactions of the Company under the Listing Rules.

LISTING RULES IMPLICATIONS

As all of the applicable percentage ratios for the Land Lease Agreement and the Properties Lease Agreement (after aggregation) are less than 0.1%, the transactions contemplated under the Land Lease Agreement and the Properties Lease Agreement fall to be de minimis transactions and are exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. The disclosure made in this announcement is made on a voluntary basis in accordance with the announcement published by the Company on the even day on the Shanghai Stock Exchange.

As the applicable percentage ratios for each of the Research and Development Services Agreement, the Common Resource Services Agreement, the Product Inspection and Testing as well as Technological Services Agreement and the Tractor Research Company Technological Services Agreement are more than 0.1% but less than 5%, the provision of services under each of the Research and Development Services Agreement, the Common Resource Services Agreement, the Product Inspection and Testing as well as Technological Services Agreement and the Tractor Research Company Technological Services Agreement is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

(1) LAND LEASE AGREEMENT

INTRODUCTION

On 24 December 2021, the Company, on behalf of the Group, as the lessor, and YTO, on behalf of the Enlarged YTO Group, as the lessee, entered into the Land Lease Agreement, pursuant to which the Group agreed to lease the Land to the Enlarged YTO Group.

LAND LEASE AGREEMENT

Details of the principal terms of the Land Lease Agreement and its proposed Annual Cap are set out below:

Date

24 December 2021

Parties

- a) the Company, on behalf of the Group, as the lessor; and
- b) YTO, on behalf of the Enlarged YTO Group, as the lessee.

Term of the Agreement

The term of the Land Lease Agreement is from 1 January 2022 to 31 December 2022.

Land and Land Use Rights to be Leased

Pursuant to the Land Lease Agreement, the Group agreed to lease to the Enlarged YTO Group the Land of a total gross area of approximately 11,639 square metres owned by the Group, including but not limited to the land and land use rights located at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC.

Payment Terms

Pursuant to the Land Lease Agreement, the rent for a quarter shall be payable by the Enlarged YTO Group in cash before the end of such quarter.

Pricing Standard for the Transactions under the Land Lease Agreement

Pursuant to the Land Lease Agreement, the rent of the Land payable by the Enlarged YTO Group shall be determined according to the following order:

- (1) the prices of lease transactions in respect of similar land and land use rights in similar locations between the lessor and independent third parties; or
- (2) in the event that the above prices are not available or not applicable, the price shall be determined through negotiations by the parties on an arm's length basis.

The lessor will select and engage a qualified intermediary to appraise the rental value of the premises to be leased at a price no less than the appraised value or obtain not less than two quotes of market rental for similar land/land use rights through enquiry for comparison.

The Company uses method (1) to determine the price. The Company will make reference to the unit rent prices (the “**Comparable Unit Rent Prices**”) in lease agreements entered into recently by the Group with independent third parties for similar land/land use rights in similar locations, to ensure that the unit rent price payable to the Group by YTO Group under the Land Lease Agreement will not be lower than that of the Comparable Unit Rent Prices.

The Company will use method (2), where there are no available or comparable prices under method (1). Under method (2), the Company will select and appoint an intermediary with appraisal qualification to conduct appraisal on the land/land use rights to be leased, and the transaction price shall be no less than the appraised value; or through enquiries, obtain not less than two quotes of market rental for similar land/land use rights for comparison.

In any event, the rent payable by YTO Group to the Group under the Land Lease Agreement will be no less favourable than the rent payable by independent third parties to the Group for similar land and land use rights in similar locations.

HISTORICAL FIGURES AND THE PROPOSED ANNUAL CAP FOR THE TRANSACTIONS UNDER THE LAND LEASE AGREEMENT

The following table sets out the historical annual rent for the lease of the Land and land use rights for the two years ended 31 December 2020 and the eleven months ended 30 November 2021, and the proposed Annual Cap for the year ending 31 December 2022 for the lease of the Land under the Land Lease Agreement:

Historical annual rent for the year ended 31 December 2019 (audited) RMB'000	Historical annual rent for the year ended 31 December 2020 (audited) RMB'000	Historical annual rent for the eleven months ended 30 November 2021 (unaudited) RMB'000	Proposed Annual Cap amount for the year ending 31 December 2022 RMB'000
1,640	1,790	70	350

The under-utilization of the annual cap for the year ending 31 December 2021 is primarily due to the fact that certain members of the Enlarged YTO Group have implemented business re-organisation during the year and as a result there has been a decrease in the areas of Land required by the Enlarged YTO Group from the Group.

BASIS FOR THE PROPOSED ANNUAL CAP UNDER THE LAND LEASE AGREEMENT

The proposed Annual Cap amount for the year ending 31 December 2022 under the Land Lease Agreement was determined with reference to the actual transaction amount of the lease of the land for the two years ended 31 December 2020 and the eleven months ended 30 November 2021 and the decreased demand for Land by the Enlarged YTO Group due to business re-organisation of certain members within the group. Having considered the area of land expected to be leased to the Enlarged YTO Group in 2022 and the historical charging standard of the Group, the proposed Annual Cap amount for the year ending 31 December 2022 is correspondingly adjusted to RMB350,000.

(2) PROPERTIES LEASE AGREEMENT

INTRODUCTION

On 24 December 2021, the Company, on behalf of the Group, as the lessor, and YTO, on behalf of the Enlarged YTO Group, as the lessee, entered into the Properties Lease Agreement, pursuant to which the Group agreed to lease the Properties to the Enlarged YTO Group.

PROPERTIES LEASE AGREEMENT

Details of the principal terms of the Properties Lease Agreement and its proposed Annual Cap are set out below:

Date

24 December 2021

Parties

- a) the Company, on behalf of the Group, as the lessor; and
- b) YTO, on behalf of the Enlarged YTO Group, as the lessee.

Term of the Agreement

The term of the Properties Lease Agreement is from 1 January 2022 to 31 December 2022.

Properties to be Leased

Pursuant to the Properties Lease Agreement, the Group agreed to lease to the Enlarged YTO Group the properties and appurtenances (inclusive of facilities like water and electricity, industrial equipment and rooms for industrial use within such properties) owned by the Group of a total gross area of approximately 38,618.05 square metres, including the properties located at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC.

Payment Terms

Pursuant to the Properties Lease Agreement, the rent for a quarter shall be payable by the Enlarged YTO Group in cash before the end of such quarter.

Pricing Standard for the Transactions under the Properties Lease Agreement

Pursuant to the Properties Lease Agreement, the rent of the Properties payable by the Enlarged YTO Group shall be determined according to the following order:

- (1) the transaction prices of leasing similar properties in similar locations between the lessor and independent third parties; or
- (2) in the event that the above prices are not available or not applicable, the price shall be determined through negotiations by the parties on an arm's length basis.

The lessor will select and engage a qualified intermediary to appraise the rental value of the premises to be leased at a price no less than the appraised value or obtain not less than two quotes of market rental for similar premises through enquiry for comparison.

The Company will use method (1) to determine the price. The Company will make reference to the unit rent prices (the “**Comparable Unit Rent Prices**”) in lease agreements entered into recently by the Group with independent third parties for similar properties in similar locations, to ensure that the unit rent price payable to the Group by YTO Group under the Properties Lease Agreement will not be lower than that of the Comparable Unit Rent Prices.

The Company will use method (2), where there are no available or comparable prices under method (1). Under method (2), the Company will select and engage an intermediary with appraisal qualification to conduct appraisal on the properties to be leased at a transaction price no less than the appraised value or through enquiries, obtain not less than two quotes of market rental for similar properties for comparison.

In any event, the rent payable by YTO Group to the Group under the Properties Lease Agreement will be no less favourable than the rent payable by independent third parties to the Group for leases of similar properties in similar locations.

During the term of the lease, the Enlarged YTO Group shall be responsible for the repair, maintenance and care of the Properties and the relevant expenses.

HISTORICAL FIGURES AND THE PROPOSED ANNUAL CAP FOR THE TRANSACTIONS UNDER THE PROPERTIES LEASE AGREEMENT

The following table sets out the historical annual rent for the lease of the Properties for the two years ended 31 December 2020 and the eleven months ended 30 November 2021, and the proposed Annual Cap amount for the year ending 31 December 2022 for the lease of the properties under the Properties Lease Agreement:

Historical annual rent for the year ended 31 December 2019 (audited) RMB'000	Historical annual rent for the year ended 31 December 2020 (audited) RMB'000	Historical annual rent for the eleven months ended 30 November 2021 (unaudited) RMB'000	Proposed Annual Cap amount for the year ending 31 December 2022 RMB'000
2,830	5,930	3,760	6,000

BASIS FOR THE PROPOSED ANNUAL CAP AMOUNT UNDER THE PROPERTIES LEASE AGREEMENT

The proposed Annual Cap amount for the year ending 31 December 2022 under the Properties Lease Agreement was determined with reference to the actual transaction amount of the lease of the Properties for the two years ended 31 December 2020 and the eleven months ended 30 November 2021, and on the basis of the area of the properties expected to be leased to the Enlarged YTO Group in 2022 and the historical charging standard of the Group.

(3) RESEARCH AND DEVELOPMENT SERVICES AGREEMENT

INTRODUCTION

On 24 December 2021, YTO, on behalf of YTO Group, as the purchaser, and the Company, on behalf of the Group, as the supplier, entered into the Research and Development Services Agreement, pursuant to which the Group agreed to provide the Research and Development Services to YTO Group.

RESEARCH AND DEVELOPMENT SERVICES AGREEMENT

Details of the principal terms of the Research and Development Services Agreement and its proposed Annual Cap are set out below:

Date

24 December 2021

Parties

- (a) YTO, on behalf of YTO Group, as the purchaser; and
- (b) the Company, on behalf of the Group, as the supplier.

Services to be provided

Pursuant to the Research and Development Services Agreement, the Group agreed to provide the Research and Development Services to YTO Group, including:

- (1) Product research and development: the research and development of agricultural machinery products (including harvesters and agricultural tools and other products) and the relevant production technologies;
- (2) Technological services: technological services in relation to the products of YTO Group;
- (3) Material testing services: metallic materials, inorganic materials, chemical materials and physical flaw detection;
- (4) Calibration services: calibration services provided for material weighing, product testing, technical training, procurement of calibration instrument, assessment of standard instrument, system management, and preparation and revision of calibration standards; and
- (5) Calibration instrument testing services: services including verification, calibration, testing, maintenance and modification for the calibration instruments of YTO Group.

Term

From 1 January 2022 to 31 December 2022.

Payment Terms

The payment under the Research and Development Services Agreement shall be settled in cash and the payment terms shall be specified in each separate contract to be agreed by the parties in accordance with the Research and Development Services Agreement.

Pricing Standard for the Transactions under the Research and Development Services Agreement

Under the Research and Development Services Agreement, the fee of the Research and Development Services shall be determined in the following order:

- (1) the price of non-connected transactions of similar business between the Group and third parties who are independent of the connected parties;
- (2) the price which consists of the reasonable cost of services provided by the Group plus gross profit of comparable unconnected transactions in the same category (including but not limited to those which are the same as or similar to the contents, work period and intellectual property rights in respect of design, research and development or testing projects, etc.); or
- (3) in the event that the above prices are not available or not applicable, the price shall be determined through negotiations by the parties on an arm's length basis.

In any event, the applicable price for the provision of the Research and Development Services by the Group to YTO Group under the Research and Development Services Agreement shall be no more favourable than the price charged for the provision of the same services to the independent third party customers of the Group.

HISTORICAL FIGURES AND THE PROPOSED ANNUAL CAP FOR THE TRANSACTIONS UNDER THE RESEARCH AND DEVELOPMENT SERVICES AGREEMENT

The following table sets out the historical service fees of the Research and Development Services of the Company for the two years ended 31 December 2020 and the eleven months ended 30 November 2021, and the proposed Annual Cap amount for the year ending 31 December 2022 under the Research and Development Services Agreement:

Historical service fee for the year ended 31 December 2019	Historical service fee for the year ended 31 December 2020	Historical service fee for the eleven months ended 30 November 2021	Proposed Annual Cap amount for the year ending 31 December 2022
(audited)	(audited)	(unaudited)	
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
18,000 [#]	1,760	4,460	15,000

[#] The Annual Cap for the year ended 31 December 2019 has been adjusted from RMB1,600,000 to RMB18,000,000. For details, please see the announcement of the Company dated 29 August 2019.

BASIS FOR THE PROPOSED ANNUAL CAP UNDER THE RESEARCH AND DEVELOPMENT SERVICES AGREEMENT

The proposed Annual Cap amount for the year ending 31 December 2022 under the Research and Development Services Agreement was determined with reference to historical service fees for the two years ended 31 December 2020 and the eleven months ended 30 November 2021. According to the research and development project in relation to harvesters and agricultural machinery to be carried out by YTO in 2022, it is expected to increase the investment in research and development of new products and improving the reliability of the manufacturing process of the products.

(4) COMMON RESOURCE SERVICES AGREEMENT

INTRODUCTION

On 24 December 2021, YTO, on behalf of YTO Group, as the supplier and/or the supplying agent, and the Company, on behalf of the Group, as the purchaser and/or the purchasing agent, entered into the Common Resource Services Agreement, pursuant to which YTO Group agreed to provide the Common Resource Services to the Group.

COMMON RESOURCE SERVICES AGREEMENT

Details of the principal terms of the Common Resource Services Agreement and its proposed Annual Cap are set out below:

Date

24 December 2021

Parties

- (a) YTO, on behalf of YTO Group, as the supplier and/or the supplying agent; and
- (b) the Company, on behalf of the Group, as the purchaser and/or the purchasing agent.

Services to be provided

Pursuant to the Common Resource Services Agreement, YTO Group agreed to provide the Common Resource Services to the Group, including:

- (1) Greening services: provision of greening services within the land area of the Group, including provision of greening services being of standard quality and quantity to ensure the planting and cultivation of a variety of plants;
- (2) Road maintenance services: provision of good maintenance and care services to the road traffic and related pipe system;
- (3) Cleaning services: responsible for cleaning and daily waste collection for the land owned and leased by the Group, and maintaining the cleanliness and sanitation of plants and other buildings in the production area; and
- (4) Logistic support services: provision of collective apartments for employees and related services, and provision of logistic support services.

Term

From 1 January 2022 to 31 December 2022.

Payment Terms

Pursuant to the Common Resource Services Agreement, fees incurred during a year shall be paid by the Group in cash by the end of the same year.

Pricing Standard for the Transactions under the Common Resource Services Agreement

Pursuant to the Common Resource Services Agreement, the price of the services shall be determined according to the following order:

- (1) the prices of the transactions of similar business between YTO Group and independent third parties; or
- (2) if the above is not applicable, then costs plus a percentage mark-up, which is not more than 10% (i.e. price = costs x (1 + percentage mark-up)).

(whereas the 10% mark-up was determined based on (i) the profit margin of the transactions for the same or similar services between YTO Group and independent third parties; and (ii) the profit margin of the historical transactions of the parties to the Common Resource Services Agreement.)

YTO undertakes that the price charged for the provision of the agreed service to First Tractor and its subsidiaries shall not be higher than the price provided by the independent third parties.

HISTORICAL FIGURES AND THE PROPOSED ANNUAL CAP FOR THE TRANSACTIONS UNDER THE COMMON RESOURCE SERVICES AGREEMENT

The following table sets out the historical service fees of the Common Resource Services of the Company for the two years ended 31 December 2020 and the eleven months ended 30 November 2021, and the proposed Annual Cap amount for the year ending 31 December 2022 under the Common Resource Services Agreement:

Historical service fee for the year ended 31 December 2019 (audited) RMB'000	Historical service fee for the year ended 31 December 2020 (audited) RMB'000	Historical service fee for the eleven months ended 30 November 2021 (unaudited) RMB'000	Proposed Annual Cap amount for the year ending 31 December 2022 RMB'000
3,600	4,870	1,370	7,500

BASIS FOR THE PROPOSED ANNUAL CAP UNDER THE COMMON RESOURCE SERVICES AGREEMENT

The proposed Annual Cap amount for the year ending 31 December 2022 for the Common Resource Services Agreement was determined with reference to the historical service fees for the two years ended 31 December 2020 and the eleven months ended 30 November 2021, and on the basis of the specific items of the Common Resource Services and the Company's reasonable expected demand for the Common Resource Services. The Company's demand for the Common Resource Service by YTO will remain basically unchanged in 2022 as compared with that of 2021.

(5) PRODUCT INSPECTION AND TESTING AS WELL AS TECHNOLOGICAL SERVICES AGREEMENT

INTRODUCTION

On 24 December 2021, Xiyuan Company, as the supplier, and the Company, on behalf of the Group, as the purchaser, entered into the Product Inspection and Testing as well as Technological Services Agreement, pursuant to which Xiyuan Company agreed to provide the Product Inspection and Testing as well as Technological Services to the Group.

PRODUCT INSPECTION AND TESTING AS WELL AS TECHNOLOGICAL SERVICES AGREEMENT

Details of the principal terms of the Product Inspection and Testing as well as Technological Services Agreement and its proposed Annual Cap are set out below:

Date

24 December 2021

Parties

- a. Xiyuan Company, as the supplier; and
- b. the Company, on behalf of the Group, as the purchaser.

Services to be provided

According to the Product Inspection and Testing as well as Technological Services Agreement, Xiyuan Company agreed to provide the Product Inspection and Testing as well as Technological Services to the Group, including:

- (1) products-related technological testing services: technical judgement made to the specific targets using instrument and equipment, environmental facilities and based on other technological conditions in accordance with relevant standard or technical norms;
- (2) standardized technological support services: the provision of third-party patent services, experimental verification of standardized technological indicators, standardized information services, guidance on standardized research process, standard publicity implementation and other services; and
- (3) the provision of research and manufacturing services on non-standard equipment such as inspection and testing equipment based on the demands of the Group.

Term

From 1 January 2022 to 31 December 2022.

Payment Terms

Pursuant to the Product Inspection and Testing as well as Technological Services Agreement, the Group shall pay the service fee incurred to Xiyuan Company for entrusting it to provide the abovementioned services, the detailed service fee of which and others shall be agreed in a separate engagement agreement to be entered into by the parties.

Pricing Standard for the Transactions under the Product Inspection and Testing as well as Technological Services Agreement

Under the Product Inspection and Testing as well as Technological Services Agreement, the fee of the Product Inspection and Testing as well as Technological Services shall be determined in the following order:

- (1) the price of non-connected transactions of similar business between Xiyuan Company and independent third parties;
- (2) the price which consists of the reasonable cost of services provided by Xiyuan Company plus gross profit of comparable non-connected transactions; or

- (3) in the event that the above prices are not available or not applicable, the price shall be determined through negotiations by the parties on an arm's length basis.

In any event, the applicable price for the provision of the Product Inspection and Testing as well as Technological Services by Xiyuan Company to the Group under the Product Inspection and Testing as well as Technological Services Agreement shall not be higher than the price charged for the provision of the same services to the independent third party customers of Xiyuan Company.

HISTORICAL FIGURES AND THE PROPOSED ANNUAL CAP FOR THE TRANSACTIONS UNDER THE PRODUCT INSPECTION AND TESTING AS WELL AS TECHNOLOGICAL SERVICES AGREEMENT

The following table sets out the historical service fees of the Product Inspection and Testing as well as Technological Services provided by Xiyuan Company to the Group for the two years ended 31 December 2020 and the eleven months ended 30 November 2021, and the proposed Annual Cap amount for the year ending 31 December 2022 under the Inspection and Testing as well as Technological Services Agreement:

Historical service fee for the year ended 31 December 2019 (audited)	Historical service fee for the year ended 31 December 2020 (audited)	Historical service fee for the eleven months ended 30 November 2021 (unaudited)	Proposed Annual Cap amount for the year ending 31 December 2022
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
16,000	25,670	25,570 [#]	32,000

[#] The Annual Cap for the year ending 31 December 2021 has been adjusted from RMB26,000,000 to RMB32,000,000. For details, please see the announcement of the Company dated 15 September 2021.

BASIS FOR THE PROPOSED ANNUAL CAP UNDER THE PRODUCT INSPECTION AND TESTING AS WELL AS TECHNOLOGICAL SERVICES AGREEMENT

The proposed Annual Cap for the year ending 31 December 2022 for the Product Inspection and Testing as well as Technological Services Agreement was determined with reference to the historical service fees for the two years ended 31 December 2020 and the eleven months ended 30 November 2021.

(6) TRACTOR RESEARCH COMPANY TECHNOLOGICAL SERVICES AGREEMENT

INTRODUCTION

Reference is made to the announcement of the Company dated 29 August 2018 and the circular of the Company dated 12 October 2018 in relation to, among others, the transactions for the provision of technology research and development, technological consultation and other technological services in respect of tractors and other agricultural machinery and diesel engines and other power machinery products by the Tractor Research Company to the Company under the then technology services agreement entered into between Tractor Research Company and the Company on 29 August 2018. Such said agreement has a term of 3 years from 1 January 2019 to 31 December 2021, with the respective annual caps of the 3 years being RMB116,000,000, RMB125,000,000 and RMB135,000,000 respectively. The said agreement and the transactions contemplated thereunder have been approved by the independent Shareholders of the Company, the details of which have been set out in the announcement of the Company dated 29 October 2018.

On 24 December 2020, Tractor Research Company, on behalf of Tractor Research Group, as the supplier, and the Company, on behalf of the Group, as the purchaser, entered into the Tractor Research Company Technological Services Agreement, pursuant to which, Tractor Research Company agreed to provide the new production technology research and development, technological consultation as well as other technological services in respect of tractor and other agricultural machinery and diesel engine and other power machinery products to the Group.

TRACTOR RESEARCH COMPANY TECHNOLOGICAL SERVICES AGREEMENT

Details of the principal terms of the Tractor Research Company Technological Services Agreement and its proposed Annual Cap amount are set out below:

Date

24 December 2021

Parties

- (a) Tractor Research Company, on behalf of Tractor Research Group, as the supplier; and
- (b) the Company, on behalf of the Group, as the purchaser.

Services to be provided

Tractor Research Group agreed to provide the Group with technology research and development, technological consultation and other technological and special services (including testing services) related to the products in relation of tractor and diesel engine.

Undertakings by Tractor Research Company

Tractor Research Company has undertaken:

- (1) to procure that Tractor Research Group will not provide services that are the same as or similar to those under the technological service agreement to other corporate legal persons or institutions whose business is competing with that of the Group; and
- (2) to procure that Tractor Research Group will give priority to the research and development projects of the Group over other third-parties' projects except for the national research or development projects of the Chinese government.

Term

From 1 January 2022 to 31 December 2022.

Payment Terms

Pursuant to the Tractor Research Company Technological Services Agreement, the Group shall pay the research and development fee incurred to Tractor Research Group for provision of the abovementioned services (technology research and development, technological consultation, technological services and special services) as entrusted. Specific project contents, term, acceptance method, amount, etc. shall be agreed in each separate engagement agreement to be entered into by the parties.

Derived Intellectual Property

Unless otherwise agreed by the parties, all intellectual property rights such as patent application rights and proprietary technology use rights of the new production technology developed by Tractor Research Group under the engagement by the Group shall belong to the Group. With the written consent of the Group, Tractor Research Group may use such intellectual property rights free of charge, but shall not transfer or license the right to use such intellectual property rights to other third parties in any way.

For the new production technology developed by Tractor Research Group under the engagement by the Group, if both parties agree that such new production technology and the related intellectual property rights applied for belong to Tractor Research Group, the Group has the permanent right to use the same free of charge.

Pricing Standard for the Transactions under the Tractor Research Company Technological Services Agreement

Under the Tractor Research Company Technological Services Agreement, service fees shall be determined in the following order:

- (1) the price of transactions of similar business between Tractor Research Group and independent third parties;
- (2) the price which consists of the reasonable cost of services provided by Tractor Research Company plus gross profit of comparable non-connected transactions; or
- (3) in the event that the above prices are not available or not applicable, the price shall be determined through negotiations by the parties on an arm's length basis.

Tractor Research Company undertook that such price shall not be higher than the price charged for the provision of the entrusted technological services to the independent third parties.

HISTORICAL FIGURES AND THE PROPOSED ANNUAL CAP AMOUNT FOR THE TRANSACTIONS UNDER THE TRACTOR RESEARCH COMPANY TECHNOLOGICAL SERVICES AGREEMENT

The following table sets out the historical service fees for the two years ended 31 December 2020 and the eleven months ended 30 November 2021 under the Tractor Research Company Technological Services Agreement, and the proposed Annual Cap amount for the year ending 31 December 2022 under the Research And Development Services Agreement:

Historical service fee for the year ended 31 December 2019 (audited) <i>RMB'000</i>	Historical service fee for the year ended 31 December 2020 (audited) <i>RMB'000</i>	Historical service fee for the eleven months ended 30 November 2021 (unaudited) <i>RMB'000</i>	Proposed Annual Cap amount for the year ending 31 December 2022 <i>RMB'000</i>
85,920	71,380	109,280	210,000

BASIS FOR THE PROPOSED ANNUAL CAP UNDER THE TRACTOR RESEARCH COMPANY TECHNOLOGICAL SERVICES AGREEMENT

The proposed Annual Cap of the services to be provided under the Technological Services Agreement was determined with reference to the historical transaction amounts and the Group's tractor and diesel engine product research and development and manufacturing upgrade plans for 2022.

INTERNAL CONTROL MEASURES

To ensure that each of the Land Lease Agreement, the Properties Lease Agreement, the Research and Development Services Agreement, the Common Resource Services Agreement, the Product Inspection and Testing as well as Technological Services Agreement and the Tractor Research Company Technological Services Agreement is in conformity with the principle of arm's length transaction, the Company has established relevant internal control measures on the decision-making for and implementation of connected transactions. Such relevant internal control measures on connected transactions are conducted and supervised by the business department, finance department, office of the Board and audit and legal department of the Company:

- (1) the Company having established measures on decision-making for and daily management of connected transactions. The Board of the Company having approved the abovementioned agreements in accordance with the decision-making process of connected transactions;
- (2) the independent directors of the Company having conscientiously performed their duties, and having issued consent opinions on the connected transactions;
- (3) the relevant business department, the office of the Board and the finance department of the Company having reviewed the reasonableness and fairness of the terms of the abovementioned agreements (in particular the pricing terms). Each business unit will have its finance department and related departments review and monitor the prices and related terms proposed for each type of transaction between the Company and independent third parties and connected parties through their participation in the contract evaluation process as it conducts its specific business;
- (4) the internal audit department of the Company and the external auditing firms shall conduct regular supervision and evaluation on whether the connected transactions of the Company have been carried out in accordance with the internal control requirements of the Company; and
- (5) the Company having clearly stated in the management system for connected transactions that when a business unit enters into a specific agreement in accordance with the abovementioned agreements, it must be determined in accordance with the pricing standards and other terms as agreed in the agreement.

The Directors are of the view that the above internal control measures can ensure that the transactions under each of the 2022 Continuing Connected Transaction Agreements will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and the Shareholders.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTION UNDER THE VARIOUS AGREEMENTS

The Company and YTO utilize geographical convenience and leverage their respective resource advantages to carry out business related to daily operations with each other, which is conducive to reducing operating costs and ensuring the normal operation of each other's production and operation. The terms of each agreement on connected transactions are reached by both parties through negotiation and in accordance with the principle of fair transaction, without affecting the independence of the Company and in the interests of the Company and the Shareholders as a whole.

(1) Land Lease Agreement and Properties Lease Agreement

The Properties and the Land are premises which, for the time being, the Company does not need to utilise. The entering into of the Land Lease Agreement and the Properties Lease Agreement will increase the efficient utilisation rate of the assets of the Company, which will help increase the returns to the Shareholders, and which is in the interests of the Company and its Shareholders as a whole.

(2) Research and Development Services Agreement

The businesses of the Group cover the provision of Research and Development Services for YTO Group. The Company has a strong research, manufacture and development capabilities in agricultural machinery products, technological transformation and product quality improvement capabilities in casting and forging products, and capabilities and conditions to provide measurement services and measurement instrument testing services. Provision of such services by the Company to YTO Group will help the Company to give full play to its technological advantages in respect of process research and development and improve the utilization of relevant resources, which is in the interests of the Company and its Shareholders as a whole.

(3) Common Resource Services Agreement

In light of the extensive land area of the Group and the complexity of maintenance and care services to road facilities, so far as the Directors are aware, it is convenient for YTO Group to provide relevant services to the Group, and YTO Group possesses the relevant capability and sufficient capital back-ups to provide the Common Resource Services.

(4) Product Inspection and Testing as well as Technological Services Agreement

Product-related inspection and testing services provided by Xiyuan Company, as a state-authorized independent testing organization and a certified public service platform, to the Group meet the needs of the Company in product manufacturing and marketing.

(5) Tractor Research Company Technological Services Agreement

The Tractor Research Group has strong capability in tractor products research and development. The Group wishes that the Tractor Research Group will continue to provide new production technology research and development and technological services related to tractor products to the Group, and meet the Company's product technology upgrade needs.

INFORMATION OF THE GROUP, YTO, YTO GROUP, XIYUAN COMPANY AND TRACTOR RESEARCH COMPANY

The Group is principally engaged in the production and sale of agricultural machineries and power machineries. The principal products include tractors of hi-powered, mid-powered and low-powered, diesel engines and relevant parts and components.

As at the date of this announcement, YTO is a immediate controlling shareholder of the Company, holding approximately 548,485,853 A Shares of the Company, representing approximately 48.81% of the total issued Shares of the Company. YTO is principally engaged in the production of specific transport machinery, vehicle products and components. China National Machinery Industry Corporation* (中國機械工業集團有限公司) owns 87.90% interests of YTO, Luoyang State-Owned Assets Operation Company Limited owns the remaining 12.10% interests of YTO.

As at the date of this announcement, Xiyuan Company is a direct wholly-owned subsidiary of YTO, the controlling shareholder of the Company. Xiyuan Company, in the capacity of a state-authorized inspection and testing organization and a certified public service platform, is principally engaged in: the testing and inspection of tractors, three-wheeled vehicles, low-speed trucks, automobiles (including special-purpose vehicles), electric vehicles, construction machineries, internal combustion engines, agricultural machineries, motorcycles, agricultural machineries, transformation machineries and its components; conducting security check on motor vehicles; development, production and sale of agricultural machinery equipment and test equipment, instruments, new materials and related products; licensed sale of imported equipment and instruments; technical development, consultation, transfer and related services; judicial authentication in the quality of machinery products; land inspection; measurement and calibration of the instrument and equipment.

As at the date of this announcement, Tractor Research Company is a non-wholly owned subsidiary of the Company, and the Company holds 51% equity interest in Tractor Research Company and YTO holds the remaining 49% equity interest in Tractor Research Company. Tractor Research Company is an associate of YTO and a connected subsidiary of the Company under the Listing Rules. Tractor Research Company is a domestic company incorporated in the PRC with limited liability. Its principal activities include research and development as well as examination and testing of products such as tractors, engines, construction machineries and agricultural transporters; research and development of equipment as well as technology development, transfer, consultancy services and sales.

LISTING RULES IMPLICATIONS

(1) Land Lease Agreement and Properties Lease Agreement

As at the date of this announcement, YTO beneficially owns approximately 48.81% equity interest in the Company and is the immediate controlling shareholder of the Company. Accordingly, YTO is a connected person of the Company and the transactions contemplated under the Land Lease Agreement and the Properties Lease Agreement constitute continuing connected transactions of the Company under the Listing Rules.

The transactions contemplated under the Land Lease Agreement and the Properties Lease Agreement are required to be aggregated pursuant to Rule 14A.81 of the Listing Rules. As all of the applicable percentage ratios (after aggregation) are less than 0.1%, the transactions contemplated under the Land Lease Agreement and the Properties Lease Agreement fall to be de minimis transactions and are exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. The disclosure made in this announcement is made on a voluntary basis in accordance with the announcement published by the Company on the even day on the Shanghai Stock Exchange.

(2) Research and Development Services Agreement

As at the date of this announcement, YTO beneficially owns approximately 48.81% equity interest in the Company and is the immediate controlling shareholder of the Company. Accordingly, YTO is a connected person of the Company and the transactions contemplated under the Research and Development Services Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As the applicable percentage ratios for the Research and Development Services Agreement are more than 0.1% but less than 5%, the provision of services under the Research and Development Services Agreement is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.

(3) Common Resource Services Agreement

As at the date of this announcement, YTO beneficially owns approximately 48.81% equity interest in the Company and is the immediate controlling shareholder of the Company. Accordingly, YTO is a connected person of the Company and the transactions contemplated under the Common Resource Service Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As the applicable percentage ratios for the Common Resource Service Agreement are more than 0.1% but less than 5%, the provision of services under the Common Resource Service Agreement is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.

(4) Product Inspection and Testing as well as Technological Services Agreement

As at the date of this announcement, YTO beneficially owns approximately 48.81% equity interest in the Company and is the immediate controlling shareholder of the Company. Xiyuan Company is a direct wholly-owned subsidiary of YTO. As such, Xiyuan Company is a connected person of the Company, and the transactions contemplated under the Product Inspection and Testing as well as Technological Services Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As the applicable percentage ratios for the Product Inspection and Testing as well as Technological Services Agreement are more than 0.1% but less than 5%, the provision of services under the Product Inspection and Testing as well as Technological Services Agreement is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.

(5) Tractor Research Company Technological Services Agreement

As at the date of this announcement, YTO beneficially owns approximately 48.81% equity interest in the Company and is the immediate controlling shareholder of the Company. Tractor Research Company an associate of YTO and a connected subsidiary of the Company under the Listing Rules. As such, the transactions contemplated under the Product Inspection and Testing as well as Technological Services Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As the applicable percentage ratios for the Tractor Research Company Technological Services Agreement are more than 0.1% but less than 5%, the provision of services under the Tractor Research Company Technological Services Agreement is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

BOARD’S CONFIRMATION

The 2022 Continuing Connected Transaction Agreements and the transactions contemplated thereunder have been approved by the Board. Li Xiaoyu, Li Hepeng, Xie Donggang and Zhou Honghai, all being Directors, have abstained from voting at the Board meeting, as they are connected to YTO and (if applicable) Xiyuan Company.

The terms of each of the 2022 Continuing Connected Transaction Agreements were determined after arm’s length negotiations between the parties thereto. The Directors (including the independent non-executive Directors) consider that the terms of each of the 2022 Continuing Connected Transaction Agreements are on normal commercial terms and in the usual course of business of the Group, fair and reasonable and in the interests of the Group and the Shareholders as a whole.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meanings:

"2022 Continuing Connected Transaction Agreements"	collectively, the Land Lease Agreement, the Properties Lease Agreement, the Research and Development Services Agreement, the Common Resource Services Agreement, the Product Inspection and Testing as well as Technological Services Agreement and the Tractor Research Company Technological Services Agreement;
“Annual Cap”	the maximum aggregate annual amount payable to or, as the case may be, receivable by the Group for the transactions under each of the Land Lease Agreement, the Properties Lease Agreement, the Research and Development Services Agreement, the Common Resource Services Agreement, the Product Inspection and Testing as well as Technological Services Agreement and the Tractor Research Company Technological Services Agreement;
“Board”	the board of Directors;
“Common Resource Services”	the greening services, road maintenance services, cleaning services and logistic support services under the Common Resource Services Agreement;

“Common Resource Services Agreement”	the agreement dated 24 December 2021 entered into between YTO, on behalf of YTO Group, as the supplier and/or the supplying agent and the Company, on behalf of the Group, as the purchaser and/or the purchasing agent, pursuant to which YTO Group agreed to provide the Common Resource Services to the Group;
“Company”	First Tractor Company Limited* (第一拖拉機股份有限公司), a joint stock company with limited liability incorporated in the PRC, the H Shares and A Shares of which are listed on the main board of the Stock Exchange (Stock Code: 0038) and the Shanghai Stock Exchange (Stock Code: 601038) respectively;
“connected person(s)”	has the same meaning as ascribed to this term under the Listing Rules;
”connected subsidiary(ies)”	(i) non wholly-owned subsidiary(ies) of the Company that YTO and/or its controlling companies or entities, individually or together, can exercise 10% or more of the voting rights at general meeting of such subsidiary(ies) (such 10% excludes any indirect interest in the subsidiary(ies) which is/are held by YTO and/or its controlling companies or entities through the Company) and (ii) any subsidiary of a non wholly-owned subsidiary referred to in (i) above;
“controlling shareholder (s)”	has the same meaning as ascribed to this term under the Listing Rules;
“Director(s)”	the director(s) of the Company, including the independent non-executive directors;
“Enlarged YTO Group”	(i) YTO Group; (ii) the associates of YTO Group; and (iii) the connected subsidiaries;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;

“Land”	the land and land use rights owned by the Group to be leased under the Land Lease Agreement, including but not limited to the land and land use rights located at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC;
“Land Lease Agreement”	the land lease agreement dated 24 December 2021 entered into between the Company, on behalf of the Group, as the lessor, and YTO, on behalf of the Enlarged YTO Group, as the lessee, pursuant to which the Group agreed to lease the Land to the Enlarged YTO Group;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“percentage ratio(s)”	has the same meaning as ascribed to this term under the Listing Rules, as applicable to a transaction;
“Product Inspection and Testing as well as Technological Services”	the products-related technological inspection and testing services and patent services, standardized technological support services and research and development services on non-standard equipment such as inspection and testing equipment under the Product Inspection and Testing as well as Technological Services Agreement;
“Product Inspection and Testing as well as Technological Services Agreement”	the agreement dated 24 December 2021 entered into between Xiyuan Company, as the supplier, and the Company, on behalf of the Group, as the purchaser, pursuant to which Xiyuan Company agreed to provide the Product Inspection and Testing as well as Research and Development Services on non-standard equipment to the Group;
“Properties”	the properties and appurtenances owned by the Group to be leased under the Properties Lease Agreement, including but not limited to the properties (inclusive of facilities like water and electricity, industrial equipment and rooms for industrial use within such properties), located at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC;
“Properties Lease Agreement”	the properties lease agreement dated 24 December 2021 entered into between the Company, on behalf of the Group as the lessor, and YTO, on behalf of the Enlarged YTO Group, as the lessee, pursuant to which the Group agreed to lease the Properties to the Enlarged YTO Group;

“Research and Development Services”	the product research and development, technological services, material testing services, calibration services and calibration instrument testing services under the Research and Development Services Agreement;
“Research and Development Services Agreement”	the agreement dated 24 December 2021 entered into between YTO, on behalf of YTO Group, as the purchaser, and the Company, on behalf of the Group, as the supplier, pursuant to which the Group agreed to provide the Research and Development Services to YTO Group;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shareholder(s)”	the shareholder(s) of the Company;
“Share(s)”	share(s) of RMB1.00 each of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Tractor Research Company”	Luoyang Tractors Research Company Limited* (拖拉機研究所公司), a company incorporated in the PRC with limited liability, which is and a connected subsidiary of the Company under the Listing Rules an associate of YTO;
“Tractor Research Group”	Tractor Research Company and its subsidiaries;
“Tractor Research Company Technological Services Agreement”	the technological services agreement dated 24 December 2021 entered into between the Company, on behalf of the Group, as the purchaser, and Tractor Research Company, on behalf of Tractor Research Group, as the supplier, pursuant to which Tractor Research Company agreed to provide the new production technology research and development as well as technological services in respect of tractor products to the Group;
“Xiyuan Company”	Luoyang Xiyuan Vehicle and Power Inspection Institute Co., Ltd.* (洛陽西苑車輛與動力檢驗所有限公司), a company established in the PRC with limited liability, which is a direct wholly-owned subsidiary of YTO;

“YTO” YTO Group Corporation* (中國一拖集團有限公司), a limited liability company incorporated in the PRC and the controlling shareholder of the Company, holding approximately 48.81% equity interest in the Company;

“YTO Group” YTO and its subsidiaries (other than the Group); and

“%” per cent.

By Order of the Board
FIRST TRACTOR COMPANY LIMITED*
YU Lina
Company Secretary

Luoyang, the PRC
24 December 2021

As at the date of this announcement, the Board comprises Mr. Li Xiaoyu (Chairman), and Mr. Liu Jiguo as executive Directors; Mr. Li Hepeng, Mr. Xie Donggang and Mr. Zhou Honghai as non-executive Directors; and Ms. Yang Minli, Ms. Wang Yuru and Mr. Edmund Sit as independent non-executive Directors.

* *For identification purposes only*